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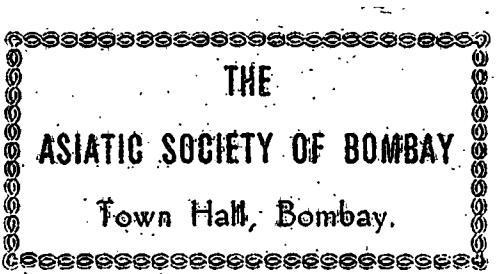

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REMARKS

ON A

GOLD CURRENCY FOR INDIA.

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BY

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REMARKS

ON A

GOLD CURRENCY FOR INDIA.

CHAPTER I.

Observations on the necessity for a gold coinage.—There is abundance of gold in the country which would be brought to the Mint for coinage in times of a monetary pressure.—Gold has been banished from the currency by our Mint regulations, against the wishes of the natives.

The Currency Committee which sat in 1866, and collected evidence from every part of India, reported that the demand for a gold currency is unanimous throughout the country. The question is now frequently asked, when are we to have a gold currency? Unfortunately the unanimity which prevails in the demand for a gold currency by no means extends to the discussions regarding the best method of introducing it, and the question is still in abeyance.

The following remarks are offered to those interested in the subject. They contain—

First—Observations on the necessity for a gold coinage;

Secondly—Some general remarks on the subject of the coinage as established in England and other countries;

Thirdly—Observations on the methods proposed for introducing a gold coinage into India, especially the introduction of sovereigns into the currency at ten rupees.

There are about one hundred and twenty millions * sterling of gold bullion in India. This amount is being increased at the rate of five millions annually. It is only by means of a gold currency that any portion of this unproductive wealth can be utilised.

* See Appendix **B**.

If the country has hoards of gold bullion without a parallel, and is increasing them at a rate which is without a parallel, then the question of a gold coinage is not a merely theoretical one regarding the best standard of value, or a consideration of which is the most convenient kind of coin, but has also a direct practical bearing on the existing and future wealth and well-being of the country.

We may be perfectly satisfied with silver as a good standard of value, and with the rupee as a convenient circulating medium, but we are also bound to consider whether our mint regulations are not partly to blame for the Native habit of accumulating hoards of useless gold bullion, and whether some means ought not to be afforded for turning portions of this reserve of wealth into money on occasions of a monetary crisis.

It has been stated that upwards of one hundred millions of gold are possessed by our Indian subjects, an amount not far short of the whole produce of the Australian mines since their discovery. If no mints

existed it would be worth while building them on the chance of coining a fraction of this immense treasure; but the mints exist,—it is only the mint rules which require alteration to allow of our solving the problem whether there is any desire on the part of the owners of this bullion to have a portion of it converted into coined money.

This gold should at the least form a reserve available in a monetary crisis; but it is just at the time of a monetary crisis that it becomes useless, because it is neither money, nor available for conversion into money at the mints. Sovereigns and gold bars are used in many districts for circulation and to adjust accounts: this answers well in easy times. If the owner of gold requires money, he can sell it for rupees. But the more a district has trusted to gold as a circulating medium, the more severe will be the effects of a monetary crisis. Then every one desires to sell his gold, and finds that there are no buyers. In almost all other countries the gold could be readily turned into money at the mint. In India this resource is not available.

It is certain that commerce and trade are at times much hampered by this want of adaptation in our currency regulations to the habits of the Native merchants and bankers. The monetary crisis in 1865, which commenced at Bombay and extended to other parts of India, would have been instantly, and probably completely, relieved if the mint rules had admitted the coinage of gold. This was shown by the following facts.

Although sovereigns are not a legal tender in India, and therefore, not money in the strict sense of the term, yet, by a provision of the Paper Currency Act, they are received by the Department of Issue of Paper Currency, in exchange for currency notes, to a limited extent, at the rate of ten rupees. The limit is that not more than one-fourth of the total amount of the currency reserve shall be in gold. In 1865 this reserve was about one million three hundred thousand pounds.

At the close of 1865 there was a great demand for money in the capitals of the Indian presidencies. This demand was for the legitimate purposes of commerce. Large quantities of raw produce were being brought to the sea-board for shipment, and rupees were required for transmission to the interior, in payment for this produce. The banks and merchants of Bombay who held Government currency notes sent them to the Currency Office, to be exchanged for coin, because the merchants of the interior object to receive payment in notes.

This drain became so serious that a steamer was chartered at Calcutta by Government to bring round specie. The Mint was working night and day, and turning out five or six hundred thousand pieces in the twenty-four hours. But this was not sufficient to meet the wants of the community, and they took advantage of the regulation allowing sovereigns to be tendered for notes. The notes issued against sovereigns were at once changed for rupees: the full amount of sovereigns allowed by law

to be held in the Currency Department, viz. £300,000, was received in a few days. On the last day of receipt a tender of £70,000 from one bank alone was refused. These sovereigns, not being a legal tender, were of no use to the Currency Department at such a time. The reserve of rupees was reduced to £100,000, or one-twenty-fifth part of the note circulation, the rest of the reserve being all in bullion or gold coin, and the Government bank of issue was on the point of being broken, not by a demand of gold for notes, but by a demand of notes for gold.

At Calcutta the full amount of gold allowed to be tendered to the Currency Department was taken up in the same way.

The money market was only relieved by the importation of vast quantities of silver from abroad. There is no reserve of silver bullion in India available for minting purposes. A considerable quantity of silver bullion is to be found scattered as ornaments among the poorer classes, who substitute gold for it whenever they can, but silver bars are never kept in store by bankers or merchants, and the greatest monetary pressure fails to bring local supplies of silver to the Mint for coinage. The amount of gold bullion held as a reserve of wealth in the shape of bars and sovereigns is considerable; all this would be sent to the Mint when it became profitable to do so. To gather up the silver reserve of bullion is like gleaning ears of wheat in a field, but a large portion of the gold reserve is stacked ready for the threshing-floor.

The question of a gold currency is one of special importance to the Bombay Presidency. For ten years Bombay has been the chief bullion mart, and for a much longer time the chief gold bullion mart, of India. It might have been expected that the wealthier provinces of the Gangetic valley would have absorbed more bullion than those on the west side of India. The smaller imports at Calcutta are probably owing to the means of remittance afforded by the Secretary of State's drafts, which displace bullion imports. The drafts on the well-filled Bengal treasuries are double those on Bombay.

In 1864 the Bombay Reporter General on External Commerce remarked on the extraordinary amount of the gold imports, observing that the question of a gold currency must come prominently forward if they continued.

Last year (1867) the imports of gold were three millions sterling, and of silver four millions. Up to the present time this year they have been £ 600,000 gold and £ 570,000 silver, showing a slight preponderance of gold. The use of gold in this part of India is more prevalent than in other districts, and especially the use of gold as a means of remittance, or for the adjustment of accounts,—in fact, as a substitute for money.

The Currency Commission asked in their circular of questions sent to the Treasury officials (Question 28), "Does bar gold circulate in your district?" The answers from Bengal and Madras

were about in the proportion of one affirmative to two negatives, from Bombay in the proportion of four affirmatives to one negative. But the answer from all districts is that gold in one shape or another is hoarded or used for ornaments.

It is highly probable that the great extent to which gold is imported, and used as a substitute for money or as hoarded wealth, in the districts of which Bombay is the commercial centre, contributes largely to the fluctuations in which the money market of that port is not unfrequently involved. In 1865 (and on other occasions), when the rate of interest was ten to fifteen per cent., and exchange more than ten per cent above par, there must have been a store of gold amounting to at least three, perhaps to six, millions sterling available for coinage within a two days' journey from the Mint, where it could have been coined in a week. I am not speaking of gold ornaments, but of sovereigns and gold bars, and hoarded gold, held as a reserve of wealth, which would immediately have been brought out to take advantage of the high value of money, and have given great relief to commerce by reducing the rates of interest and exchange. The monthly imports of gold sometimes reach half a million sterling, and when money is scarce could be disposed of to the greatest advantage by being passed through the Mint.

It must be admitted that Sir Charles Trevelyan was right when he said that "the natives of India have never acquiesced in the exclusion of gold from the

currency." If they *will* hoard gold, it is much better that they should keep it in the shape of coin than of gold bars or gold ornaments. In the former case there is a greater chance that the hoard will be broken in upon. If a cultivator worth a hundred rupees in gold ornaments has a bad season, and is in debt for his land-tax, or loses a bullock, or wishes to marry his daughter, he is reluctant to break up his golden treasure. If he does break it up he must submit to the imposition of the goldsmith, who is at once assayer and purchaser. In preference he borrows at thirty per cent. But if his hoard were in coined money he would have less scruple in paying away a portion.

That the introduction of a gold currency would be merely restoring what existed up to the commencement of the present century the following extracts will show. Gold coins were a legal tender up to 1835, when they were demonetised by an Act of the Legislature, for what reason has never been made public that I am aware of,—probably because they had almost disappeared, owing to our mint regulations. The same Act introduced the present rupee into Bengal, in lieu of the "sicca rupee," which was coined at the Calcutta Mint previous to that date. The present rupee, which nearly assimilates to that formerly current in Western and Central India, was first coined at Madras in 1818; it was introduced into Bombay in 1827, and Calcutta in 1835. Previous to that date the currency of the provinces of Bengal, Behar, and Orissa was the

sicca rupee, a coin differing by seven per cent. from the present rupee. Fifty years ago there were fifty different kinds of rupees in India, but they have almost all been absorbed by the mints, and converted into the present current coin bearing that name.

The relative value of gold to silver for the first half of this century (previous to the discovery of the Californian gold mines) was rather over fifteen and a half to one. A pound weight of gold was worth fifteen and a half pounds of silver in the producing countries. But since 1820 the value of the gold coins given from the Indian mints for a pound of gold was, according to their rating in the currency, only equal to fifteen times the value of the coins from a pound of silver. Previous to 1820 gold was even more undervalued.

Hence bankers or merchants who imported bullion for coinage always gave a preference to silver. The Madras Mint Committee reported in 1813 that there was a great preponderance in the importation of silver bullion compared to gold. They say—

"In the territories subject to this Government gold has from time immemorial been considered the standard of value, by which the pay of the troops and the collection of revenue has been valued.

"The standard of value, and money of account, should, we consider, be fixed in that metal (silver) which at present composes the predominant import, and promises to maintain a proportionate predominance in our circulation.

"Objections have indeed been urged against the introduction of the rupee into the southern districts. It has been observed that in them gold has always been the measure of value, and that the introduction of the rupee would overthrow the whole system of Native accounts. But such alterations have already been made in other districts without any apparent inconvenience, and even with positive advantage."

In 1827, when the new rupee was introduced into Bombay, Mr. Bruce of the Civil Service, and a Member of the Mint Committee, thus wrote to that body:—

"I take the liberty of drawing your attention to the inconvenience which the public have for some years experienced from the disappearance of all gold from circulation, and of submitting to your consideration the expediency of revising the principles by which the coinage of that metal is at present regulated, that is to say, of raising the existing Mint proportion between its value and that of the silver coin, without which, as it appears to me, gold can never again be expected to form any part of the currency of this presidency.

"The present Mint regulations must of necessity be tantamount to a perpetual banishment of gold from the currency.

"As far as I can perceive, a revision of the Mint rules would not involve any innovation of importance,—at least none that could create any

confusion in either public or private transactions; it would be nothing more, in fact, than a recognition by Government and the Mint of that rise in the value of gold which for several years has been practically recognised in the market of this presidency, while by restoring a currency which facilitates mercantile speculations, and promotes the convenience of the community generally, it would be the means of conferring a great public benefit.

"It may be objected to such a measure that the present Mint ratio of one to fifteen between gold and silver is that which obtains generally all over the world, and that it would be at variance with the general principles which have already been determined on for the currency of India.

"To these and similar arguments I can only reply that they may be very good reasons against its being undertaken without sanction of the highest authority, but they are in my opinion far from sufficient to justify our passively adhering to a system which, however beautiful in theory and applicable to the period when it was first designed, is now altogether unsuitable to the present relative value of the two metals, and therefore incapable of being reduced to practice."

At the beginning of this century, and previously, the East India Company used to export gold to England. Of course, no silver left the country, gold being the most profitable to export. This may have tended to reduce the quantity of gold coins

in circulation, while the undervaluation of gold at the Mint prevented the gold coinage from being replenished. The natives, unable to obtain gold coin, still adhered to their favorite metal in other shapes, and the wealthier they have grown the more partial have they become to gold as a means of investment. The strange spectacle is now presented of five millions of gold annually passing the Mint doors without any facility being offered for its conversion into coin.

CHAPTER II.

General remarks on the coinage.—Inconvenience of a double standard on the French system.—Lord Liverpool's principles of coinage.—No objection to a double standard if a high seignorage is placed on silver coinage.

The coinage of almost all countries consists of gold, silver, and copper, or silver and copper.

The amount of copper to be coined is regulated by Government. No private individual can bring copper to the Mint and demand copper coin in exchange, otherwise the country might be inundated with copper money. The copper coins are distributed throughout the country from the Post Offices, Custom House, Government Treasuries, Banks, or other agencies.

Copper coins are issued at a much higher money value than their actual weight would warrant. A pound of copper (worth about ninepence) is coined into twenty-four penny-pieces. The profit goes to

the Mint. From it, however, must be deducted the cost of coinage, which is much higher for copper than for gold: one blow of the stamping press makes a sovereign, but it takes two hundred and forty blows to make a sovereign's worth of pence. The profits on the copper coinage, allowing for various expenses, are hardly more than twenty per cent.

In England the Government about fifty years ago resolved to regulate the amount of the silver coinage in the same way that it regulates the copper coinage, and the system has worked remarkably well.

In England gold coin can be demanded as a right by any one who brings gold bullion to the Mint.

No charge is made for coining gold.

The Government or Mint authorities have no more control over the number of sovereigns to be coined yearly than they have over the number of stamps to be sold at the Post Office: in either case Government provides the stamp,—the number of pieces depends on the public demand.

The French monetary system differs from the English in this essential particular,—all persons can bring silver bullion as well as gold bullion to the Mint, and demand coin in exchange. There is a charge of one-fifth per cent. for coining gold, and five-eighths per cent. for coining silver.

In India all persons can bring silver bullion to the Mint and demand silver coin. The Mint also undertakes to coin gold into gold mohurs and ten-rupee

pieces, but the coin when issued is not a legal tender. It remains as much bullion as when it came to the Mint. That the privilege of having gold coined in this manner is not appreciated by the public may be understood from the fact, that although Bombay has for many years been the largest gold bullion mart in India, no gold coins have been issued from the Mint for eight years.

The charge for having silver coined (or seignorage) is two per cent., that is, just as the Stamp Office imposes a charge for the stamp which makes a deed a legal document, the Mint charges two per per cent. for the stamp which makes the rupee a legal tender. The value of the stamp on the rupee is something over a quarter-anna.

The Indian copper coinage is on the same principle as in England.

The Calcutta Mint is the largest in the world. It can coin half a million pieces in the day, or more under pressure. The Bombay Mint is next: it can coin three hundred thousand pieces in the day, and has done seven hundred thousand on emergency. The Royal Mint can coin one hundred and fifty thousand in the day.

The value of the Royal Mint coinage is from eight to twelve millions annually.

The value of the coinage of the combined Indian Mints is from six to ten millions sterling annually, and nearly equally divided between Calcutta and

Bombay, there being somewhat of an excess at Bombay. There is a small silver coinage at Madras.

Her Majesty has mints at Sydney and Hongkong, and it is believed mints are in contemplation, if not commenced, at Melbourne and Fraser River.

The annual coinage of sovereigns must form about half the gold coinage of the world. If the sovereign was introduced into the Indian mints, the annual coinage of sovereigns (say fifteen millions) would be equal to half the gold *produce* of the world, leaving the other half to be turned into coins of other denominations and used in the arts and manufactures.

The "standard of value" of a country is usually understood to mean the metal in which monetary transactions are conducted, and which forms the measure of prices. France, which uses gold and silver indiscriminately, has a double standard.* But, as gold and silver maintain their relative value tolerably evenly, it is easy to measure the prices of one country by the standard of another.

It is obvious that the chief requisite for a good standard of value is that it should be liable to the least possible fluctuation. The value of the precious metals may be influenced by increase or decrease in production, and increase or decrease in use. Hence the question as to whether gold or silver is the best standard depends on issues regarding which

* I use the term "double standard" to mean that gold and silver coins are both a legal tender of payment for any amount.

it is impossible to speak with certainty. If geologists could tell us what amount of gold and silver is buried in the bowels of the earth, and if the various nations would fix for ever their several monetary systems, we could decide which metal would alter least in value, and form the best standard; but the subject is one which can be better decided by writers a century hence than at the present time.

Mr. Stanley Jevons, who has published a valuable work on gold, considers that the large recent production of gold, combined with its increased use as a circulating medium, renders gold more than ever likely to remain, what he believes it to be at present, the best standard of value, because additions to the immense amount of gold now in use will affect it far less than when the circulation was more contracted, just as water when poured into a large cistern affects the level of the fluid contents less than when poured into a small basin.

The production of silver from the newly discovered Californian mines has within a very few years increased enormously also, and the precious metals continue to maintain the same relative value with considerable exactness. The present tendency is towards a fall in the value of silver.

There is no Government more interested than the Indian Government in having a permanent standard of value, because its revenue is greatly dependent on a source, the land revenue, which does not adjust itself to a rise and fall in prices. The chief sources of revenue in England, customs

excise, &c., do, as has been shown by Mr. Jevons, adapt themselves gradually to prices. The recent rise in prices has largely affected the Government finances, because, although the land revenue has remained stationary, the cost of public works, commissariat supplies, and salaries has risen. In public works alone the enhanced price of material and labour must make a difference of a million sterling annually, compared with the rate at which such undertakings could be formerly carried out.

A silver standard has the disadvantage that it is not in accordance with what constitutes, and appears to have a growing tendency to constitute, the standard of other countries. By her consumption of silver India contributes largely to keep up the price of that metal. This is of no consequence so long as we are only importers, or keep our silver for home consumption, but if we ever become exporters its value would fall, to our loss. It was actually necesssary to export small quantities of bullion from India to England two years ago, and the price of silver fell at once.

India is the market for at least half the silver produce of the world, and about one-seventh of the gold produce. If we wish to sell silver we have only a market as large as our own to send it to, but if we wish to sell gold we have a market seven times as large. The gold market is therefore much more to be trusted than the silver market.

Much has been said against a double standard. It has been argued that if coin of the two metals

circulate together as in France, debtors and creditors do not fairly adjust their accounts. Men borrow in one metal and defraud creditors of their just dues by paying in another. I cannot see that this argument has much—indeed, any—force. It is often forgotten by those who inveigh against a double standard that the Mint stamp fixes, and is intended to fix, the relative value of all gold and silver coins on which it is impressed. In France men borrow and pay in francs; they do not borrow and pay in bullion. If a rich man has to pay away money, he draws a cheque on his banker; if a poor man, he takes it out of his pocket; but neither the payer nor the payee is in the slightest degree made richer or poorer according to the metallic description of the coins used.

It is said, however, by some writers, that although a double standard does not affect daily transactions and short loans, yet that if, under its influence, the whole currency of a country changes from one metal to another (as it has done from silver to gold in France), the relations of debtor and creditor, especially of public creditors, are affected. That the cheap metal in countries which have a double standard, and coin both gold and silver indiscriminately, always ultimately more or less displaces the dear metal, is undoubted.

The displacement may be so complete as to involve practically a change in the standard of value from silver to gold or gold to silver. Political economists, of whom M. Chevalier may be considered the

exponent, complain that in the case of long loans, such as the Government loan in France, it is hard on creditors that they should lend in one metal—silver, and be paid in the metal which has fallen in value and become relatively cheaper—gold. To this, however, it may be answered that, silver having risen, gold has only come in to equalise matters for the debtor. The creditors lent in the cheapest metal, and are paid in the cheapest metal. In England, where there is a single gold standard, the Government borrowed in the dear metal—gold, and pay in the cheap metal—gold. The French Government borrowed in the cheap metal—silver, and pay in the same metal as their British neighbour. There cannot be a doubt that, whichever is the fairest system, the French creditors come the best off. If it is held that those who borrow in gold should pay in gold, the English treatment of their creditors was fairest, but if it is held that debtors should pay value received, then the French treatment was the fairest.*

A committee recently appointed by the French Government to consider the French monetary system adopted a resolution that a double standard of value was the best, whereupon, it is said, M. Chevalier, who was one of the members, declined to sit any longer with colleagues who held such heterodox opinions, and at once withdrew from the committee.

* The views of M. Chevalier and Mr. Wilson regarding the supposed breach of faith involved in a change of the standard of value have been (so far as I am capable of judging) entirely refuted by Sir William Mansfield in his Minute on a Gold Currency.

The French Mint undertakes to coin gold or silver for any person who brings those metals to its door. The charge for coinage is very trifling. This system has been strongly condemned, and certainly with good reason. The proportion of gold and silver entering for coinage does not depend on public convenience, but on the operation of the dealers in bullion, who are obliged out of self-interest to import the metal which affords the greatest profit at the Mint.

The evils attending this system (which does not necessarily appertain to a double standard) are excessive, and have caused a double standard to fall into more disfavour than it deserves, because the evils do not arise from making gold and silver coins equally a legal tender, but from the faulty Mint regulations under which the coins are put into circulation.

Under the French system the whole coinage of the country may be changed from gold to silver and silver to gold, in compliance with every fluctuation in the value of those metals. This has actually occurred in France during the present century.

The Mint ratio between gold and silver in France is $15\frac{1}{2}$ to 1 : a pound of gold taken to the Mint produces fifteen and a half times more francs than a pound of silver. During the earlier part of the century this ratio undervalued gold, which left France in large amounts; during late years it undervalued silver, which has now been comparatively driven from the coinage of France.

If these changes in the description of metal forming French currency had been desired by the French nation, or deliberately intended by the French Government, they might have been unobjectionable; but the changes simply arise from operations of banks and money-changers. We may take an illustration.

A banker or bullion-dealer in London desires to send a hundred thousand pounds to India, or China, or Holland, or any country where silver circulates. Silver we will suppose is dear in London, so he sends a hundred thousand pounds worth of gold to his Paris agent, who has it coined and exchanged for five-franc silver pieces, which are then exported to their destination. The French Mint is set to work, and the French coinage is changed to the extent of £100,000, for no purpose whatever but to minister to the gain of a foreign banker.

It was by these and similar operations, which became excessive about 1855 (soon after the fall of gold which accompanied the gold discoveries), that the whole French coinage was changed. For years the melting-pots in the Indian mints were filled with the silver coins of France and Belgium. The Oriental, the Agra, and other Indian exchange banks were effecting a vast change in the character of the French coinage, without troubling themselves to inquire whether the convenience of France was consulted by their operations.

At last the French Government got puzzled and

annoyed,—for a second time in the century their currency was being shifted from one metal to another. In 1857 they appointed a commission of inquiry into the principal causes of the monetary situation. A series of questions were propounded to the commission by Government. The following were among the programme :—

"What may be the influence for good or evil of the destruction of the silver currency?"

"What good can arise beyond the private benefit which may be derived by money-changers?"

"In face of the fact and its consequences, is there nothing for Government to do?"

The committee said that the relation between gold and silver of 15½ to 1, established by law in 1811, must be compulsorily maintained. To prevent the foreign market from exercising an influence on the French currency it was only necessary to put a duty on the exportation of silver, and inflict penalties on the heads of establishments which engage in or connive at the trade of melting up silver coins.

There were old edicts in France against melting coin or selling and buying it at a premium, and the French Government actually commenced prosecutions against some of the money-changers in Paris. The proceedings, however, were almost immediately suspended. The government would probably have been compelled to interfere in a proper manner (viz., by altering their mint rules) if the change taking

place in the currency had been a bad one. But France was getting, at no cost to herself, a much better currency than she parted with. Few Frenchmen would wish to exchange the beautiful gold pieces which now issue from the French mint for the clumsy silver coins of Louis Philippe or the Republic. The French Government allowed the change to proceed. They have recently taken measures which show a tendency to adopt our English system. This has been practically followed for a long time in America.

In England previous to 1816 the Mint was open to the public for the coinage of both gold and silver: we owe the present system to Lord Liverpool.

That nobleman had, during a series of years, directed his attention to questions connected with the currency, and devoted a long period of time, during which he was confined to his couch from illness, to completing his information, and embodying the result of his observations. He complains that "many writers have treated of the principles of the coinage, but have founded their system too much on principles merely speculative, and have not adverted to the facts with which the history of this and many other countries would have furnished them. It cannot be denied that, in all the affairs of life, experience is the surest guide, and I not only intend to treat of the coinage in a speculative view, but I shall endeavour to establish the opinions which I may advance, by a discreet reference to facts."

The general principles on which Lord Liverpool considered the coinage should be regulated apply to England and to India and every other country. "The silver coins," he says, "are more essentially necessary for carrying on the interior commerce of the kingdom, and particularly the retail trade, than the gold coins. It is of more importance, therefore, that these should be retained within the kingdom." There is no object to be gained by retaining gold in the country. If the owners of gold in India would export fifty millions of it to buy up Indian railway stock or Government securities in the London market, they would benefit themselves and the country, but a large exportation of silver coin would occasion inconvenience.

Lord Liverpool recommends that a high seignorage be put on the silver coins. "It is certain in such case the nation will no longer be exposed to the evils arising from a conflict between coins made of different metals, or to the practice of exporting them, or to that of melting them down, whenever a profit can be made."

It is obvious that when a high charge is made for the Mint stamp on a coin, it is not liable to be melted up or exported to countries where the value of the stamp is not acknowledged.

A high seignorage prevents the coins on which is is imposed from being melted up or exported, but it may not be sufficiently high to prevent the coinage being chiefly composed of those coins. If sovereigns

were Indian gold coins, a seignorage of three per cent. on silver would prevent the silver coins from being melted up or exported so long as any gold coins or gold and silver bullion could be had for the latter purpose, but it would leave the coinage almost exclusively composed of silver, because the latter would still be the most profitable to importers. It is impossible to say what seignorage would exactly meet our requirements, so as to admit a due proportion of both metals, because the relative price of gold and silver constantly fluctuates. Instead of fixing the seignorage on silver, the English Government, on Lord Liverpool's advice, fix the amount of silver to be coined, and leave the seignorage to be fixed by the market price. The silver, in fact, is bought, like any other commodity, at the cheapest rate. This can easily be done, because the coinage of silver is attended with a profit to the Mint, which has only to open its doors and silver pours in. Lord Liverpool further suggested that silver coins should be a legal tender of payment for forty shillings only. A good deal of importance is popularly attributed to this measure, which is a restriction more easily understood than that imposed on the coinage of silver at the Mint, but it is quite a minor feature of the English system of coinage.

There are three peculiarities in the English silver coinage, all of which act as safeguards against a derangement of the currency.

First—There is a high value attached to the Mint stamp. The silver bullion in a shilling is worth

about 11¼*d.*, the extra three farthings being made up by the stamp: this prevents the silver coins being melted up or exported.

Secondly—Government regulates the amount of silver to be coined. This prevents an excess of silver being put into circulation.

Thirdly—Silver coin is only a legal tender for forty shillings.

The first two regulations are all that are absolutely required, and could be far less easily dispensed with than the last. Remove the first safeguard and the silver coin might be exported, as has happened in France. Remove the second and when silver was cheap there would be a constant tendency to have small amounts of silver coined, and exchanged for gold coins, and an excess of silver put into circulation. The last safeguard, which limits silver as a legal tender, would be a simple nuisance without the second, which limits the coinage of silver. If there was an excess of silver, shopkeepers might receive large quantities during their daily retail business, which bankers would refuse to receive in deposit. As it is, no one has the least inducement to make payments in silver, and limiting the amount for which silver is a legal tender has not much effect, except that it prevents Government from making over-issues at the Mint.

All the evils of a double standard are eradicated when the seignorage on silver is made somewhat higher than that on gold, and its admission to the

coinage kept under control. This is an important point for consideration. If a gold coinage is introduced into India, it would be impossible to limit the amount for which silver is to be a legal tender, but it is quite possible to frame such Mint rules as will entirely obviate the evils attending what is called a "double standard."

It might be supposed that if the government of a country were to watch the fluctuations of the relative values of silver and gold, and adjust the values of the coins from time to time, those metals might enter for coinage in proper proportions. Lord Liverpool, however, observes that experience has proved that every attempt for this purpose has been unsuccessful.

But if the Mint can purchase silver at a profit, which it always can if the seignorage is high, it is easy for the Government to fix in round numbers the amount of the silver coinage for each year. If the total coinage is expected to be six or seven millions sterling, the silver coinage can be put at one-half, or one-third, or two-thirds, as considered expedient.

The public are absolutely at the mercy of the Mint rules in respect of what the coinage is to be composed of. The importers of bullion will always consult their own interest, and bring that metal for coinage which under the Mint rules is found to pay best. The bankers who are our bullion importers do not care whether gold or silver is originally made the most profitable importation by Mint rules. They can bring either, and are guided in their choice by the relative values assigned to gold and silver at the Mint.

CHAPTER III.

A ten-rupee piece of 120 grains weight recommended by the Currency Commission as the Indian gold coin.—The Government of India had previously recommended sovereigns.—The officers of the Indian Mints recommend sovereigns.—To bring sovereigns into circulation the silver seignorage must be raised.—Effect on prices.—A high seignorage on silver very desirable, as it prevents the silver coins being melted up, or a traffic in the coinage by money-changers. Reasons why gold coins and small silver coins have not maintained their place in the coinage.

The following observations refer to the methods proposed for introducing gold into the currency.

It has been proposed—

To coin a ten-rupee piece of 120 grains (the sovereign being 123·27) specially for India. This was the method of introducing a gold currency recommended by the Currency Commission which sat at Calcutta two years ago. The advantage claimed for this method is that, as a gold piece of 120 grains almost exactly represents ten silver rupees, according to the average value of gold and silver during late years, its introduction into the coinage would not affect existing values and prices. The disadvantages which have been urged against the ten-rupee piece of 120 grains are—

First—That it is not a sovereign, which it is very desirable to make our Indian gold coin.

Secondly—That to have gold and silver coins whose intrinsic value corresponds very nearly with

the rating assigned them in the currency, exposes the coinage to the evils which experience has proved attend such a system, as pointed out in the last chapter.

Sir William Mansfield proposed that, in addition to the coinage of ten-rupee pieces, sovereigns should be made legal tender at par, which he reckoned at ten rupees four annas. This would have given * a money value recognised by law to the large amount of sovereigns in India at the present time, or which might be hereafter imported. It would be based on the same principle as that on which the proposal for a ten-rupee piece was founded, viz., that it is essential our new gold coin should bear a very closely adjusted valuation to the silver coin now in use. If the sovereigns were introduced at Rs. 10¼, it is possible that at some future period accounts would be kept in sovereigns, when no objection could be raised to making ten rupees the equivalent of a sovereign, all contracts having been transferred under the latter head at Rs. 10¼.

The introduction of sovereigns as a legal tender at ten rupees has long been a favorite idea. In 1864 Sir Charles Trevelyan wrote a minute on the subject, which was approved by the Government of India, who recommended that his proposal should receive legislative effect. Sir Charles simply proposed to declare the sovereign a legal tender without altering existing Mint regulations except in so far as to allow of their coining sovereigns. He considered

* When the sovereign is rated at Rs. 10¼ a seignorage of one per cent. on gold is allowed for.

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that silver was rising in price, and ten silver rupees were already not far from the equivalent of a sovereign. It is very probable Sir Charles Trevelyan's expectations might have been realised had the rate of production of silver remained stationary, but at the time he was writing a new silver country had been discovered in the Sierra Nevada, from one single vein of which there was raised in 1864 and 1865 silver equal to thirty per cent. of the produce of the world if we take the estimate of the Currency Committee regarding the latter, or forty per cent. if we take the estimate of Professor Phillips. The produce of this vein in 1866 was greater than before, but exact returns have not been published.

Those connected with Indian Mints have not only read accounts of the silver veins of the Sierra Nevada, but have seen vast quantities of the silver which it produces. It is about four years ago since it became evident that silver was coming to this Mint from a new source and through a new channel. Beautifully refined bars, bearing the stamp of the San Francisco Mint, began to be forwarded from China, to which country they had been sent across the Pacific in payment for silks and tea, and were passed on to India in payment for opium and other articles. This supply still continues.

The anticipated rise in the value of silver as compared with gold has not taken place,—on the contrary, silver shows a falling tendency. Under these circumstances, although Sir Charles Trevelyan's scheme, if carried out exactly as he proposed it, would still

confer some benefit on the country, yet sovereigns would not under it come into general circulation, nor would a large supply be imported. But Sir Charles Trevelyan's scheme, although impracticable under present Mint rules, could by a modification of them be rendered perfectly practicable, and the popular desire to see the sovereign introduced at ten rupees could be gratified.

Three officers* who have held the situation of Master of a mint in India have expressed an opinion regarding the introduction of a gold currency into India. All agree in their general proposal. Let the gold coins be sovereigns and half-sovereigns, but to bring them into general circulation the Mint rules for the receipt of silver must be modified, the value of the rupee must be slightly raised by increasing the charge for the Mint stamp upon it: unless this is done gold bullion will not be brought to the Mint for coinage.

The first question connected with this scheme is, What is the value of a sovereign in rupees? and this again depends on whether a seignorage is to be levied on the coinage of gold. No seignorage is levied on the coinage of gold at the English Mint, and only one-fifth per cent. at the French Mint. As the Indian Mints would far more than pay their expenses by the silver and copper coinage, I will assume that no seignorage, or a very trifling seignorage, would be levied on gold.

* Colonel Smith, R.E., long Mint Master at Madras and Calcutta; Colonel Hyde, R.E., Mint Master, Calcutta; and Colonel Ballard, R.E., Mint Master, Bombay.

In Appendix V., page 111, of the Report of the Calcutta Currency Committee, it is stated that, according to the average price of bar gold in Calcutta from 1854 to 1863, a sovereign coined without seignorage is worth 10·132 rupees, and the remark is added "an additional duty" (*i.e.*, seignorage) "of 1 per cent. on silver bullion would make the sovereign equal to Government Rupees 10·031, practically 10 rupees." But, as the introduction of gold into our currency would tend to lower the price of silver, an increase to the present seignorage of less than 2 per cent. would hardly be sufficient to induce the importation of gold for coinage. An additional seignorage of 2 per cent. is recommended by Colonel Smith in his recent pamphlet on a gold currency.

A seignorage of 4 per cent. on silver would probably give a preponderance to the silver imports, a seignorage of 5 per cent. would give a preponderance to the imports of gold, while a seignorage of 6 per cent. would be nearly tantamount to excluding silver from the mint.

The objection to this scheme is that as the value of the rupee would be raised, prices would fall in proportion. If the seignorage was raised 2 per cent. (making a total of 4 per cent.) while the value of silver fell somewhat, the increase to the value of the rupee might be taken at 1½ per cent. The effect on prices would be very gradual, taking years to accomplish. Prices have risen of late years, in some places twenty, in some fifty, in some a hundred fold; and if with our present seignorage

on the rupee of 2 per cent. they would rise in the ordinary course of events 20 per cent. during the next ten years, they would only rise 18½ per cent. if the seignorage were raised to 4 per cent.

It appears a question open to argument whether it is in accordance with the precedents of English or Indian legislation to reject such a beneficial measure as the introduction of sovereigns into our currency at ten rupees because it would gradually affect prices to the extent of 1½ per cent. or even more. Government have, a few years ago, adopted a measure which affects prices, viz., the introduction of a paper currency. It has been observed by Sir William Mansfield, in his Minute on a Gold Currency, that the introduction of a paper currency affects prices. He says, page 14—

"Assuming the bank note currency of the Bank of England is 14 millions in excess of the coin kept in deposit for the purpose of meeting the liability caused by the convertibility of the notes, so much metal, viz., 14 millions of bullion, being released, the metal becomes proportionately cheaper: in other words, money is cheaper, or the same amount of coined money will not purchase so many commodities as it would do were there no bank notes, and were 14 millions of bullion, now set free as a commodity to trade with, absorbed in the British circulation."

The recent introduction of a paper currency into India has had the effect of lowering the value of the rupee in the manner indicated by the above

extract. Colonel Smith considers the recent alteration in Mint rules, by which Mint certificates are issued at sight, as equivalent to lowering the value of the rupees now issued, compared with those issued before the alteration, $\frac{1}{2}$ per cent.

We have thus had our measure of value incidentally lowered on two occasions by recent legislation, and, considering how much the value of money has fallen, the effect of raising our measure of value by introducing a gold coinage would be less injurious to the general interests of the community than the effect of lowering our measure of value, which has been induced by the enactments referred to.

It would be difficult for Government to carry out any scheme of taxation, or any legislative or executive measure, if they looked too closely into the manner in which the interests of individuals are affected. When the English Government in the last century found that, owing to the over-valuation of gold in the currency, silver was getting scarce, they simply lowered the value of the guinea from 21*s.* 6*d.* to 21*s.* (or more than two per cent.) by proclamation. No doubt the interests of some individuals suffered, but the coinage was saved.

The manner in which the method proposed for introducing sovereigns into the currency would work can be best shown by taking an example in illustration, which would apply to the method in which all our coin is now passed out of the Mint.

It has before been pointed out that bullion is only brought to the Mint by private individuals,—Government has nothing to do with the supply. If a bank in London requires money in India it sends out bullion for the Mint. The greater part of the bullion (90 per cent. or more) brought for coinage is imported by the exchange banks. If a merchant imports bullion, or, having it in his treasure chest, desires to turn it into money, he frequently sells it to the banks, who pay him at once and forward it to the Mint for coinage.

Suppose sovereigns declared a legal tender at ten rupees from 1st January 1869, and the silver coinage at the Mint taken by Government into its own hands, according to the English principle, or the seignorage on silver raised sufficiently to make gold more profitable to import than silver, let us see how the sovereigns would be provided.

An exchange bank wishes to send money to India in January. The Mint is closed to silver, so the bank sends out gold bullion worth £100,000 to be coined into sovereigns. In the ordinary course of trade it would either sell bills against this in England, or buy bills with it in India. The bank, to cover the cost of sending out sovereigns, raises its rate of exchange 1½ or 2 per cent.; and this would be the first effect of declaring sovereigns a legal tender at ten rupees. It would cause a rise in exchange of 1½ or 2 per cent., or, if we make allowance for modifying circumstances afterwards alluded to, a rise of about 1 per cent. would be nearer the mark.

This rise is not like an ordinary rise of one per cent. The latter may simply mean one per cent. profit to the bank. The rise occasioned by introducing sovereigns is nominal: value is given for the extra price which the bank puts on its bills. Now the Indian exchanges vary every year five or even ten per cent., and a nominal rise of one or two per cent. is what all traders could adjust themselves to. The rate of exchange is an element of calculation in every mercantile transaction.

The bank, having landed its sovereigns, buys a bill of Smith, who is shipping cotton. Smith has purchased his cotton, as he always does, with an eye to the rate of exchange, and is no loser. He pays for the cotton, and the sovereigns get into circulation.

I have said that a rise in exchange of 2 per cent. is probably over the mark. In the first place the exchange and the imports of bullion to India are enormously affected by the Secretary of State's bills on India, sold, to the extent of £ 200,000 or more, every fortnight by inviting tenders for their purchase.

To export bullion for coinage and to buy an India House bill come to the same thing,—in either case you are landed with a bill on the Government Treasury, given by the India House in one case or the Mint in the other. If the India House gives a good bargain the remitter buys the India House bills, otherwise he sends out bullion and gets Mint bills. The India House of course would make a profit by the rise in exchange caused by introducing sove-

reigns into the currency. Variations in the amount of the Secretary of State's drafts, issued at the discretion of Government, must often cause fluctuations in the rate of exchange far greater than the rise in exchange which the introduction of the sovereign into the Indian currency could effect. Exchange would be further modified by the silver coinage. If the coinage is one-half silver,—and I propose we should begin with this ratio,—then exchange would only rise one-half to one per cent.

The sovereigns might at first bear a small premium when put into circulation, and it would be rather an advantage that they should. No one could be forced to take them at more than ten rupees, so the gold coins are introduced in a manner which makes them popular. They are, moreover, already well known throughout the country.

It has been stated by Colonel Smith, and I agree with him, that the difference between the intrinsic value of a sovereign and ten rupees is an advantage, if we only look to getting a good coinage. A coinage of sovereigns and rupees would be almost the same as the English coinage of sovereigns and florins: the rupee is about a halfpenny more valuable than a florin, and quite as well, if not better, suited for its purpose. If we introduce a ten-rupee piece of 120 grains, we adjust our coin more exactly to the rupee, and have a gain at starting in not affecting prices at all; but we do not get such a good coinage for the country, we do not protect

the silver coins by such a high seignorage. I would here advert to the fact that there was formerly a gold currency in India, that there was a desire on the part of both the Home and the Indian Government to encourage it, at least previous to 1835, and yet that it has been entirely displaced by silver.

The reason for this appears to have been as follows. There is always a tendency in India to depreciate the value of coins of large denominations as compared with the smaller coins. This may not be apparent in very large dealings. But when the native bankers and shopkeepers give change for large coins, they always make a charge ("batta") for the convenience thus afforded, and endeavour to depreciate the value of the large coins, in order to increase their own profit. We have seen this in our own time in the case of silver and copper coins, until Government sent immense quantities of copper coins into circulation. A very few years ago the money-changers sometimes forced up the value of copper coins in particular bazaars and towns ten and twenty per cent. In former days Government fixed the values of the gold and silver coins according to the rates they bore in the bazaars, which were always unfavourable to gold; and importers of bullion, who usually deal in large transactions, and pay away their coins at the legal tender rate fixed by Government, found that gold was an unprofitable investment if taken to the Mint.

silver coins were received at Government Treasuries, gold being sometimes placed at an extraordinary disadvantage, ten and fifteen per cent. below par.

So late as 1854 the Bengal treasuries held fifty lakhs in gold mohurs. This must have constituted a very large portion of the gold mohurs in existence, yet their current rate of fifteen rupees was certainly below their par value.

The currency is now in a very different state to what it was fifty or even twenty years ago. Enormous amounts of silver coin have been put into circulation, and the gold coins would be much better able to hold their own. At the same time it is impossible to ignore past experience, or expect that the tendency will not be to depreciate them.

Lord Liverpool's principle that the coins of small denominations should be protected by having a high value attached to the Mint stamp upon them is peculiarly applicable to India, because there is no country where the smaller coins are so liable to be withdrawn from circulation, and hoarded or melted up by money-changers, who then take advantage of their scarcity to charge high rates for providing small change.

By ignoring this principle, except in the case of copper coins, our currency has been reduced to rupees and copper coins. The small silver coins, unprotected by a higher seignorage than that placed on the rupee, cannot keep in circulation. When they

become inconveniently numerous for the money-changers (conveniently numerous, that is, for the public) of any district, they are transferred to the melting-pot. Indeed, the facility with which small silver coins are melted up makes them particularly convenient for the silversmith.

The copper coins, being intrinsically worth only half of their legal tender value, the other half being made up by the Mint stamp, cannot be melted up at a profit. Copper has been coined in such vast quantities during the past ten years, and put into circulation through the Government Treasuries, that there is rarely any difficulty in obtaining its full value of copper coin for a rupee.

It may be doubted whether on the whole our system of coinage, although far from perfect in theory, has not answered the peculiar circumstances of the country better than any other system would have done. Forty years ago there was the greatest possible confusion in the currency all over India. Every petty district had its own coinage, silver and copper, or gold, silver, and copper. By our system, which practically ignored a gold coinage, the present rupee was all the more easily established throughout the country, and has now acquired a complete ascendancy.

As our system gives the small silver coins no chance of establishing themselves in circulation, the present copper coinage has been all the more largely distributed, and has in most districts, but by

no means universally, displaced the old copper coinage. Our new copper coinage has only been vigorously prosecuted of late years, or it might have been more firmly established by this time.

The Government has brought order out of chaos in the matter of the coinage, but should hardly rest satisfied with having done so. We have the simplest and bulkiest coinage in the world, rupees and copper coins,—one well suited for a very poor nation, but hardly refined enough for our present affluent circumstances.

If half-rupees, which are a legal tender equally with rupees, were brought more into circulation, by being used in payment of troops and Government servants, great public convenience would ensue.

The legislative measures necessary to give effect to the proposal for introducing sovereigns at ten rupees would be to declare sovereigns and half-sovereigns a legal tender at ten and five rupees, and authorise their coinage at the Mints, and to authorise the Governor General in Council to give such directions for the coinage of silver rupees at the Indian Mints, as he might from time to time consider necessary.

APPENDIX A.

Memorandum regarding the means of providing for the silver coinage after gold coins have been declared a legal tender and are coined at the Mint.

It has always been found a difficult undertaking to adjust the seignorage from time to time, so as to admit a due proportion of gold and silver coins to the currency. Government are unwilling to alter the seignorage once fixed on without mature consideration, and it is not often that the members of Government can afford the time necessary to enter into the details of this rather abstruse subject. The seignorage once fixed is left to itself, and the coinage drifts into whatever direction chance may direct. This is the practical result, as adverted to by Lord Liverpool.

But if the relative values of the gold and silver coins are so fixed as to put a high price on the Mint stamp of the silver coins, the Mint can always purchase silver at a profit. Hence by far the simplest and safest method of providing the silver coinage is for Government to fix the amount, say one-third or one-half of the expected coinage for any particular year, and let the Mint manage for the purchase of silver.

This arrangement in India would be further advantageous because, although the principles on which

the Mints for this vast empire are worked should be the same,—that is, the seignorage should be the same,—yet if one part of the country, like Lower Bengal, prefers silver, and another, like Southern India, prefers gold, the amount of the silver coinage at the respective Mints may be somewhat adjusted to the tastes of the inhabitants in the adjacent districts, if it is under Government control.

The sole question for the Mint to consider is how it can best meet the convenience of the banks which supply the silver. I have pointed out at page 38 that remitters to India have two channels open, Government bills (sold bimonthly at the Bank of England), and Mint bills procured by sending out bullion. The purchase of silver by the Mint (or sale of Mint bills) might be conducted in the same way as the sale of Government bills, by inviting tenders at the Mint for contracts to supply silver. The contractor for any particular amount might bring the silver at any time during the year, and in any quantities, or transfer his contract, or forfeit it on payment of a trifling fine.

Tenders could be invited, to be sent in in the following form:—

"To the MASTER OF THE MINT.

I request permission to send
worth of silver bullion to the Mint during the ensuing year, at a seignorage of per cent."

The tenders would be opened at the Mint, and dealt with precisely as the Government bills sold by tender at the India House are dealt with. We will

suppose the average seignorage offered is 4½ per cent. that all at 5 per cent. get their contracts in full: the Mint Master issues contract papers in this form (I term it a contract paper,—a more suitable word, however, might be found):—

"The bearer has permission to send £10,000 silver bullion for coinage during 1869 at 5 per cent.".

One per cent. would be paid when the contract paper was issued, and forfeited if the contract was not fulfilled.

The owner would use this contract paper or transfer it, or exchange it for small ones, or tear it up, precisely as he chose. If the silver was wanted it would be imported, just as at present, or if not the contract paper would be dropped.

The practical working of this system would be precisely the same as the present system of receiving bullion at the Mint. It would be only fixing the price by auction, instead of having a fixed rate, just as the Government bills are sold by auction instead of at a fixed rate. How entirely the Government bills and Mint bills resemble and react on each other may be shown by the following extract from the last *Home News:* a paragraph on the same subject will be found in the money market intelligence of every weekly paper for India, the price of silver and Government bills being quoted together:—

"The biddings for £200,000 in Government bills were held on March 18th at the Bank of England. The minimum price was fixed at 1*s.* 11*d.*, an additional

rise of one per cent.; tenders at 1*s.* 11$\frac{7}{8}$*d.* will be allotted in full. During the last few days the silver market has been quiet; the India bills having been disposed of at a rate which is about equal to silver at its present price, the demand for the latter may arise at any moment."

To absorb local supplies of silver, a monthly sale of contracts, to be completed within the month, might be held, but it would suit all parties best to contract for the chief bulk of the coinage once or twice a year only. The agents who took the contracts would absorb local supplies.

Remitters to India who took neither Government bills nor silver would have gold to fall back upon.

APPENDIX B.

The amount of gold in India is estimated as under :—

From Currency Commission's Report, amount of gold bullion imports between 1861 and 1864. ..	£ 58,300,659	
Deduct exports	„ 1,573,012	
Balance		56,727,647
Proportion of gold in the mixed bullion import return, calculated in the proportion which gold bears to silver in the general return, and deducting exports		14,000,000
To which we now add—		
For imports which have been since made, and for the stock of gold held in the country previous to 1801, which must have been large, for previous to this century the currency of southern India had from time immemorial been gold and copper only, and gold was known all over India		50,000,000
		£ 120,727,647

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